

**RESEARCH AND ANALYSIS SECTION – LEGISLATIVE REFERENCE BUREAU**

**Executive Summary: 2007 Proposed Budget – Employees' Retirement System**

1. The 2007 Proposed Budget reflects the addition of the Policeman's Annuity Benefit Fund (PABF) administrator (Office Supervisor .5 FTE). (Page 2)
2. The 2007 Proposed Budget provides funding for the consolidation of the ERS operations on the 6<sup>th</sup> floor of City Hall, and at 735 N Water Street to a location outside the City Hall complex. (Page 2)
3. The 2007 Proposed Budget includes about \$15 million for Investment Manager Fees (88% of Total Professional Services Funding). (Page 2)
4. As of July 31, 2006, the value of the Fund was approximately \$4.676 billion. (Page 4)
5. The ERS manages two tax levy funded special purpose accounts with proposed funding of approximately \$3.4 million. (Page 4)

## **RESEARCH AND ANALYSIS SECTION – LEGISLATIVE REFERENCE BUREAU**

### **2007 Proposed Budget: Employees' Retirement System (ERS)**

<b>Expense Category</b>	<b>2005 Actual</b>	<b>2006 Budget</b>	<b>% Change</b>	<b>2007 Proposed</b>	<b>% Change</b>
Operating	\$ 23,343,873	\$ 20,976,648	-10%	\$ 26,677,643	27%
Capital	\$ -	\$ -	-	-	-
Positions*	48	48	0%	49	2%

\* includes 8 Pension Board Members

Note: As a result of the Global Settlement Agreement, the Pension Trust provides \$26,546,803 funding for the 2006 ERS operating budget.)

The Employees' Retirement System (ERS) is responsible for ERS asset management and retirement benefits administration for approximately 27,000 members. ERS also administers the City's participation in federal Social Security, the City's group life insurance program, and health care and COBRA dental benefits for retirees.

In addition to city government employees, the ERS includes non-certified MPS employees, and employees of HACM, RACM, MMSD, MATC, and the Wisconsin Center ("city agency" employees).

The ERS is governed by an eight -member Annuity & Pension Board consisting of three persons appointed by the Common Council President, three persons elected by active system members, one person elected by retired members, and the City Comptroller.

### ***HISTORICAL INFORMATION***

1. In a series of court decisions in the 1990s, the court of appeals for the first judicial district of the State of Wisconsin held that certain benefit modifications and structural modifications to the employees retirement act enacted into law by the Common Council required the consent of individual members, retired members and beneficiaries of the employees' retirement system. The City negotiated agreements (Global Pension Settlement-GPS) with the various City unions, City agencies and the Association of Retired Employees of the City of Milwaukee. The vast majority of individual members waived their rights and consented to certain changes in pension benefits. In August 2003 the court authorized the Board to continue to accept consent forms from members who had not consented to the GPS.

On April 11, 2000, the Common Council approved the implementation of the global pension settlement. The settlement took effect on January 19, 2001.

## **2007 Proposed Budget**

### **Personnel Changes**

The 2007 Proposed Budget reflects the addition of the Policeman's Annuity Benefit Fund (PABF) administrator (Office Supervisor .5 FTE) to the ERS Budget. On October 18, 2005, the Common Council approved a Charter Ordinance (File #050744) abolishing the Policemen's Annuity and Benefit Fund Board of Trustees and transferring administrative and managerial responsibilities with respect to the Policemen's Annuity and Benefit Fund to the Annuity and Pension Board.

### **Proposed Operating Expenditures**

#### **Office Consolidation**

The 2007 Proposed Budget provides funding for the consolidation of the ERS operations on the 6<sup>th</sup> floor of City Hall, and at 735 N Water Street to a location outside the City Hall complex. In order to bring the operations together to achieve better efficiencies, ERS explored expanding its space in City Hall complex. No contiguous space is available in City Hall complex that will meet ERS needs. These budgeted numbers represent moving the entire ERS operations to one location that is within a two-block radius of City Hall. The 2007 Proposed Budget provides \$853,000 in funding for the following items to facilitate the office consolidation:

- \$235,000 for Facility Rental
- \$154,000 for Data Connections
- \$39,000 for moving expenses
- \$425,000 for furniture

#### **Professional Services**

The 2007 Proposed Budget includes about \$15 million for Investment Manager Fees (88% of Total Professional Services) or about \$1.5 million more than the 2006 adopted budget. The increase reflects projected increases in the area of Investment Manager Fees, which are charged as a percentage of fund assets. As fund assets grow, so do investment management fees, proportionately. The current ERS investment managers are shown in the table on page 3.

<b>ERS INVESTMENT MANAGERS</b>			
<b>Fixed Income</b>	<b>Domestic Equity</b>	<b>International Equity</b>	<b>Real Estate</b>
Barclays' Global Investors	Northern Trust Global Investors	Brandes Investment Partners	RREEF / DB Real Estate
Reams Asset Management	Artisan Partners	William Blair & Company	Lubert Adler Management Company
Loomis, Sayles & Company	Turner Investment Partners		Tuckerman
	Dimensional Fund Advisors		LaSalle Investment Management
	Earnest Partners		Walton Street Capital
	Barclays' Global Investors		Guggenheim Structured Real Estate
	Alliance Bernstein		UBS Real Estate
			Prudential Real Estate Investors
			Capmark Investments
			AMB Capital Partners
			Fremont Group
			Morgan Stanley
			JP Morgan Investment Management
			Bryanston Real Estate Partners
			Stockbridge Capital Group

## **Information Technology**

The \$1.1 million for Information Technology Services included in the 2007 Proposed Budget is for the costs of hardware and software products maintenance and support, software upgrades, and professional services related to the support of Milwaukee Employee Retirement Information Technology Solutions (MERITS) operations.

## **Other Operating Services**

The 2007 Proposed Budget includes \$940,200 for Other Operating Services. This is a \$12,130 decrease from the \$952,330 provided for this account in the 2006 Budget.

A number of items that comprise the Other Operating Services account. This reduction is largely a combination of anticipated decreases in city indirect cost (\$59,300) and printing services (\$1,900) offset by moving expenses (\$39,000) and media storage (\$11,200).

## **Special Funds**

The 2007 Proposed Budget includes \$2.8 million in funding **Custom Automation Project** account for the costs of MERITS post-implementation

contract services, project management and facility costs, Election Management System project, and the establishment of a Disaster Recovery Site.

### Fund Value and Return

In 2005, the Fund's rate of return was 8.5% (Net of Managers Fees). The Fund's rate of return (Net of Managers Fees) through July 31, 2006 was 4.4%. For 2005, the Fund's 8.7% placed in the 52<sup>nd</sup> percentile as measured by Mercer/Russell/Mellon Total Funds Billion Dollar Public Universe. Note Over the past 3-year and 5-year periods, ERS has placed in the 30<sup>th</sup> and 18<sup>th</sup> percentiles respectively:

(The Mercer Universe Total Funds Billion Dollar Public Universe is comprised of 37 public funds that have at least \$1 billion in assets.)

As of July 31, 2006, the value of the Fund was approximately \$4.676 billion. The Fund's value at December 31, 2005 was \$4.585 billion.

### SPAs

Special Purpose Accounts are not included in department budgets but expenditure authority for these accounts is extended to the department by virtue of Council resolution after the Budget is adopted. The ERS manages two tax levy funded special purpose accounts with proposed funding of approximately \$3.4 million.

	2005 Actual	2006 Budget	% Change	2007 Proposed	% Change
Group Life	\$2,788,951	3,000,000	7%	\$3,165,000	5.5%
Retiree Adjustment	\$304,649	\$325,000	6%	\$291,900	-10%

For 2007, funding for the Group Life SPA is increased by \$165,000 to \$3,165,000. The increase is based on prior years' experience.

The Retiree Benefit Adjustment Fund funds the cost of supplemental pension benefits to certain former city employees who retired prior to 1984. Recipients include members and surviving spouses of the Employees' Retirement System. These supplements are non-contractual, and are subject to continuation or termination by Council action.

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